Food Wholesaling

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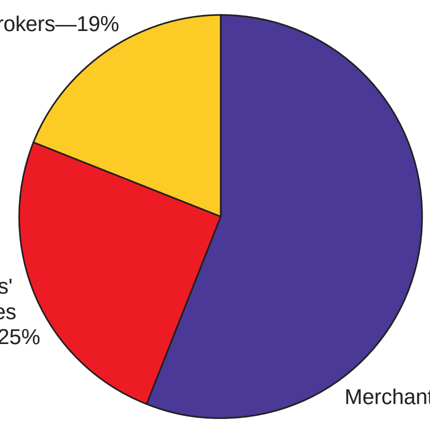
The food wholesaling sector continues to enjoy steady growth in sales and undergo concentration through acquisitions. Merchant food wholesalers work with processors to distribute products to retailers and food service establishments. As their customer base continues to shrink due to rapid consolidation by supermarket chains, many broadline merchant distributors to retail food stores continue to acquire retail operations. Concentration has also become international in scope as companies from outside the United States purchase U.S. food wholesalers.

Introduction

Broadly speaking, there are three types of wholesalers in the food industry. *Merchant wholesalers* typically buy and resell food (primarily from a variety of manufacturers), assemble it for distribution, load it onto trucks, and deliver it to retailers, food service establishments, government, or the export market, making profits on the services they provide. They also may purchase grocery items from, or deliver to, other wholesalers. Merchant wholesalers account for over half of all grocery and related product sales, which reached $589 billion in 1997 (fig. 2-1).[1] The remainder of wholesale sales is accounted for by *manufacturers' sales branches and offices* (MSBO) (25 percent), and *agents and brokers* (19 percent). MSBOs are maintained by manufacturers, apart from their plants, to market their products at wholesale. Branches carry inventory, while offices do not. Agents and brokers buy or sell goods owned by others on commission.

Figure 2-1
Total wholesale sales by type of wholesaler, 1997



Source: Bureau of the Census, Census of Wholesale Trade, 1997, U.S. Department of Commerce.

Grocery wholesalers are also classified by the type of products they handle. *Specialty* wholesalers might specialize in dairy, poultry, meats, or fresh fruits/vegetables, and they account for most wholesale sales (fig. 2-2). Of these, distributors of packaged frozen foods, meats, and fresh produce lead in sales value (fig. 2-3). *Miscellaneous* wholesalers primarily distribute products such as coffee, baked goods, soft drinks, and canned goods; *general line* distributors sell a broad range of dry groceries, perishable food products, and nonfood products found in grocery stores.

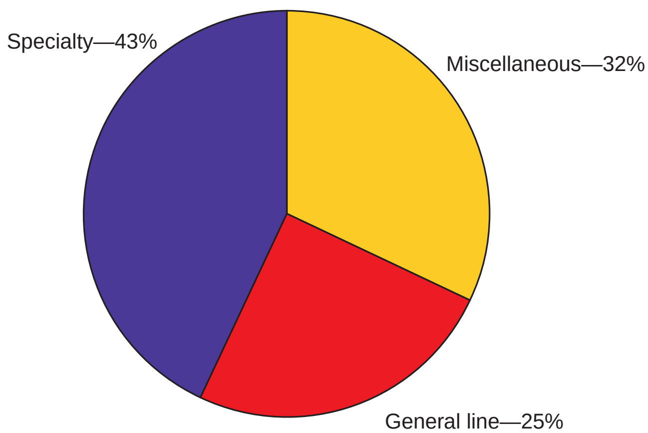
Distribution Channels to Retail Food Stores

Retail food stores buy approximately 40 percent of wholesalers' grocery and related products (fig. 2-4). Another 25 percent is sold to other wholesalers.[2] From

[1] The U.S. Census Bureau double-counts wholesale sales to other wholesalers. Product sales are counted once when sold to another wholesaler and counted again when the wholesaler resells the products to a retailer. In 1997, sales of grocery and related products to retail food outlets and food service establishments accounted for 62 percent of total wholesale sales of grocery and related products, or $365 billion.

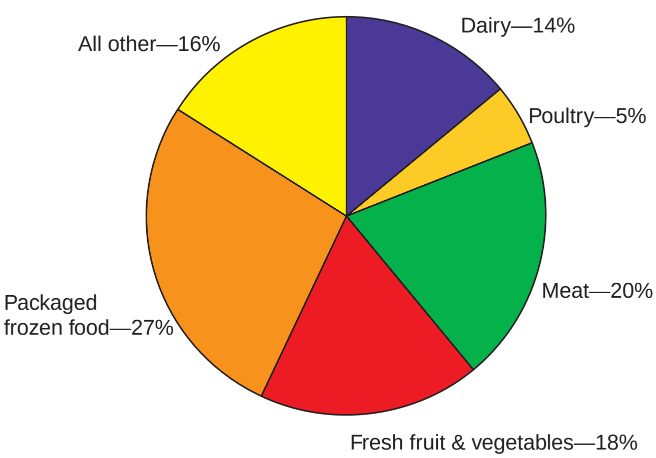
[2] Other wholesalers include small specialty wholesalers who tend to purchase product from larger wholesalers rather than directly from manufacturers (Kaufman et al., 2000).

Figure 2-2
Wholesale sales by type of products handled, 1997



Source: Bureau of the Census, Census of Wholesale Trade, 1997, U.S. Department of Commerce.

Figure 2-3
Specialty wholesale sales by type of product, 1997

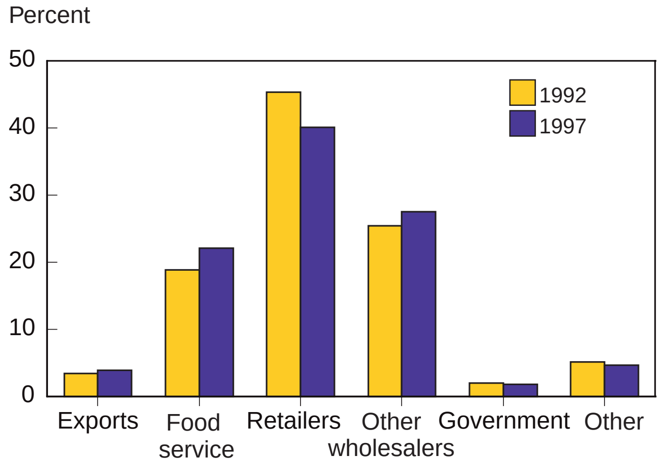


Source: Bureau of the Census, Census of Wholesale Trade, 1997, U.S. Department of Commerce.

1992 to 1997, sales to retail stores declined as a percentage of total wholesale sales, perhaps due to integration by retailers into wholesaling and the growing importance of the food service sector.[3]

Distribution to retail food stores (excluding brokers) can be classified into merchant, or third-party wholesalers (for example Supervalu, Fleming, Nash Finch), direct-store delivery (DSD), and self-distributing retailers. Nontraditional relationships between wholesalers and retailers are becoming increasingly important (Kinsey, 1999). Self-distributing retailers—including Kroger, Albertsons, Wal-Mart, Safeway, Ahold, and a number of smaller grocery chains—own their own distribution facilities.[4] Manufacturers deliver product directly to these retailers' distribution centers. Self-distributing retailers account for about 34 percent of all food distribution centers in the United States (Kinsey, 2001).

Figure 2-4
Food wholesale sales by type of customer



Source: Bureau of the Census, Census of Wholesale Trade, 1992 and 1997, *Miscellaneous Subjects*, U.S. Department of Commerce.

As consolidation continues in food retailing (see "Food Retailing" chapter), retail chains with their own distribution centers will become more prevalent. This arrangement reduces labor and nonlabor expenses. Self-distributing retailers move more cases of produce per hour in their warehouses than do traditional wholesalers, so their operating costs as a proportion of sales are lower compared with traditional merchant wholesalers (Kinsey, 1999). In 1999, 47 of the 50 largest food retailers were self-distributors.

While self-distributing food retailers manage inventories more efficiently, there remains a role for traditional third-party wholesalers, who account for 38 percent of wholesale distribution to retail food stores. For example, they service niche retailers with specialty

[3] While the food service outlets compete with retail food stores for the consumer's food dollar, food service wholesalers, such as Sysco and U.S. Foodservice, do not compete directly with retail food wholesalers, such as Supervalu and Nash Finch.

[4] Apparently, the U.S. Census Bureau classifies distribution facilities of self-distributing retailers as auxiliaries, not wholesale establishments (U.S. Department of Commerce, 2002).

Wholesale Sector Definitions

Grocery and related product wholesaling: Part of the food system in which goods are assembled, stored, and transported to retailers, food service organizations (hotels, restaurants, and institutions (HRI)), other wholesalers, export, and other types of businesses. Institutions include schools, prisons, and other government operations.

Merchant wholesalers: Operators of firms primarily engaged in buying groceries and grocery products, and reselling to retailers, institutions, and other businesses.

Manufacturers' sales branches and offices: Wholesale operations maintained by grocery manufacturers or processors to market their own products. Manufacturers' sales branches carry stocks of merchandise for delivery to customers. Manufacturers'sales offices do not stock merchandise for sale.

Brokers and agents: Wholesale operators who buy or sell as representatives of others for a commission and typically do not physically handle the products. They may serve as representatives of manufacturers or processors, but normally do not take title to the goods.

General line or broadline distributors: Merchant wholesale operators that handle a broad line of groceries, health and beauty aids, household products. Also referred to as general-line and full-line distributors. Examples include Supervalu, Fleming, and Sysco.

Specialty wholesalers: Establishments primarily engaged in the wholesale distribution of items such as frozen foods, bakery, dairy products, poultry products, fish, meat and meat products, or fresh fruits and vegetables.

Miscellaneous food wholesalers: Establishments specializing in the wholesale distribution of a narrow range of dry groceries such as canned foods, coffee, tea, or spices. Also referred to as systems distributors.

Warehouse clubs: A hybrid wholesaler and retailer that sells food, appliances, hardware, office supplies, and similar products to members (both individuals and small businesses) at prices slightly above wholesale. Examples include Sam's, BJ's, and Costco.

foods, unique displays, and a wide variety of convenience foods (Kinsey, 2000). Unified Western Grocers, the tenth largest U.S. broadline food wholesaler, acquired a specialty wholesaler to meet the needs of retailers catering to growing Asian and Hispanic communities in California (Veiders).

Manufacturers that deliver their own products to individual stores, and usually arrange it on the shelves for retailers (DSD), account for the remaining distribution to retail food stores (28 percent). These companies usually strongly advocate scan-based trading (Kinsey, 1998, 2000). Here, retailers are not billed by manufacturers until after the good is scanned and sold to the consumer. This gives the manufacturers—such as Coca Cola, Dreyers/Edy's Grand Ice Cream, and Frito-Lay—direct and immediate access to sales information so that stocks can be replenished quickly (Kinsey, 1999). These manufacturers deliver food products that typically have a relatively short shelf life, such as beverages, sweet/salty snacks, bread, and ice cream. This makes efficient delivery of fresh product doubly crucial. In this arrangement, retailers do not own the products until they are sold, so their money is not tied up in slow-moving inventory.

Distribution Channels for Food Service[5]

Food service outlets buy over 20 percent of wholesalers' grocery and related products (fig. 2-4). Distribution channels to restaurants and other food service establishments can be classified as broadliners, systems distributors, and specialty distributors. *Broadliners* (for example, Sysco and U.S. Foodservice), who account for half of U.S. food service distribution sales, serve a diverse customer base consisting of single establishments and small chains (Kinsey, 2001). Broadliners offer one-stop shopping by carrying a wide range of food, equipment, and supplies.

Specialty distributors (for example, Costco, McLane, Smart & Final) focus on a product (dairy, meat) or a customer segment (airlines, convenience stores), or may

[5] The source for this section is Friddle, Mangaraj, and Kinsey; 2001.

be warehouse clubs or cash-and-carry establishments. These distributors, accounting for a third of food service sales, often serve niches that require specialized knowledge in product sourcing, handling, or service.

Systems distributors (for example, AmeriServe/McLane, Martin Brower) account for 17 percent of food service distribution sales and serve multi-unit customers and large chains by offering low-cost, reliable delivery services. They may also serve convenience stores, hospitals, and hotels and typically carry low inventory and have low overheads. While systems distributors operate on lower margins relative to broadliners, typically their lower overhead and larger asset turnover offset this.

Small and medium-sized food service distributors of all three types may join buying groups (for example, UniPro, Pocahontas, Premier), which offer buying clout and benefits such as private labels, merchandising and marketing programs, and other support services.

Concentration

Unlike food retailing and manufacturing, where large companies have existed for over 50 years, large general-line grocery wholesalers emerged in the 1980s (Manchester). In 1954, five large general-line wholesale companies ($93 million or more in sales) accounted for only 9 percent of general-line wholesale sales. By 1987, 32 large companies accounted for 65 percent of sales.

Among merchant wholesalers, general-line distributors (Supervalu, Fleming, Nash Finch) are the most concentrated, while fresh fruit and vegetable distributors are the least concentrated (app. table 17). Meat, general-line, and especially poultry merchant wholesalers have experienced greater concentration since 1987 than other merchant wholesalers.

Mainstream economic theory predicts that increased concentration confers increased market power, and that increased market power should increase profits (Kinsey, 1998). One profit measure commonly used is gross margins. Among all types of grocery wholesalers, gross margin rose from 14.3 percent in 1990 to 15.3 percent in 1997 (U.S. Department of the Treasury). However, this increase was associated with a two-percentage-point reduction in concentration from 1992 to 1997, as measured by the sales share of the top four grocery wholesalers (CR4) (app. table 16).

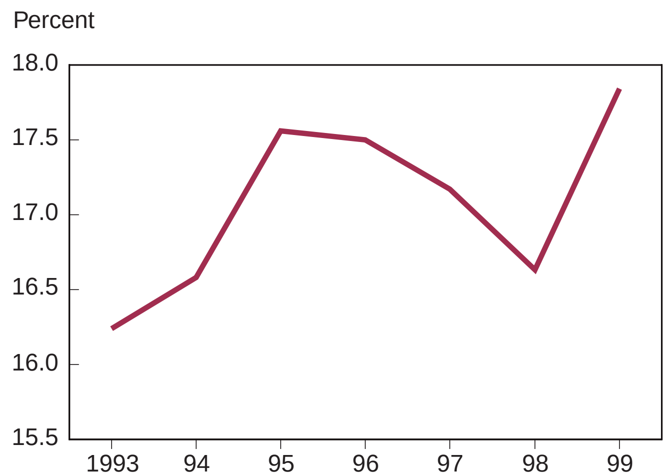
For merchant wholesalers of grocery products, gross margin was two percentage points higher (17.2 percent) than that for all grocery wholesalers combined in 1997. From 1993 to 1999, merchant wholesalers' gross margin remained stable (16-18 percent) (fig. 2.5).[6] Small increases in merchant wholesalers' gross margins were associated with slight reductions in the CR4 from 1992 to 1997 (app. table 16).

Supply Chain Initiatives

Firms throughout the retail food industry have adopted various practices from a 1992 industrywide initiative, referred to as Efficient Consumer Response (ECR), designed to emulate the logistic expertise of Wal-Mart (Kinsey, 2001). Under this initiative, firms are to group individual products into categories based on consumer sales and use of the product to ensure desired products are available when demanded (Kinsey, 2001). Efficient replenishment, whereby product flows cheaper and quicker through the food system, reduces inventories and ensures freshness. Under continuous replenishment practices, the retail customer shares data on item movement and inventory with the supplier/wholesaler, reducing the costs of stocking retail shelves. For example, a manufacturer

[6] Gross margin is defined as sales less cost of goods sold, divided by sales (Kinsey, 1998). U.S. Bureau of the Census tabulates profits only for merchant wholesalers.

Figure 2-5
Gross margin as a percentage of sales for merchant wholesalers of grocery and related products



Source: Bureau of the Census, Annual Benchmark Report for Wholesale Trade: January 1992 to March 2001, U.S. Department of Commerce.

may adjust production or shipments to more effectively meet the needs of the distribution center.

Enabling technologies—which include Electronic Data Interchange (EDI), barcodes, and Internet platforms such as UCCNet—facilitate category management and efficient replenishment. EDI allows instantaneous, paperless transmission of data between firms. Potential gains from EDI are substantial, as are costs of implementing it. Net benefits can be fully realized only through widespread adoption.

Attempts at implementing these initiatives have met with mixed success. In 1994, the top two general-line merchant distributors to retail food stores, Supervalu and Fleming, announced ECR initiatives. Supervalu noted that it has been pleased with its progress in implementing its program and improved performance of retail operations. Fleming, on the other hand, found sales to be disappointing. By the end of 1995, the company scaled back its application of ECR principles and chose to implement specific aspects of ECR that best fit their needs. Successful implementation of efficiency-enhancing activities launched by Supervalu helped to increase its sales relative to Fleming (Margulis) (table 2.1).

Efficient Foodservice Response (EFR) is a similar initiative by the food service industry. A study conducted by Computer Sciences Corporation, Consulting and Systems Integration, and the Stanford Global Supply Chain Forum of Stanford University concluded that the food service system could save $14.3 billion by adopting EFR practices, potentially resulting in lower menu prices (Perkins). Savings to food service wholesalers, in particular, would amount to $4.7 billion.

Table 2.1—Sales of top 15 general-line grocery wholesalers[1]

Company[2]	1995	1996	1997	1998	1999	2000	2001 Sales derived from: Wholesale	2001 Sales derived from: Retail	2001 Total
					$ billion				
Supervalu Stores, Inc.[3]	16.5	16.6	17.2	17.4	20.3	23.2	11.40	9.50	20.9
Fleming Companies, Inc.	17.5	16.5	15.4	15.1	14.7	14.5	13.30	2.30	15.60
C & S Wholesale Grocers[4]	2.5	3.4	5.05	6.1	6.1	7.1	8.50	0.00	8.5
Wakefern Food Corporation[5]	4.1	4.3	4.6	5	5.5	5.8	5.84	0.06	5.9
Giant Eagle	ne	2.2	2.2	4	4.2	4.2	1.64	2.86	4.5
Nash Finch Company[6]	4.1	4.2	4.5	4.3	4.1	3.96	3.08	1.03	4.11
Spartan Stores, Inc.	2.5	2.5	2.49	2.7	3.2	3.5	2.10	1.40	3.5
Roundy's, Inc.	2.49	2.6	2.6	2.6	2.7	3	2.04	1.36	3.4
Associated Wholesale Grocers (K.C.)	2.97	3.2	3.1	3.2	3.4	3.2	2.95	0.16	3.1
Unified Western Grocers[7]	2.89	3.3	3.2	3	3.1	3.1	2.85	0.15	3
Di Giorgio Corp.	ne	1	1.1	1.2	1.4	1.4	1.60	0.00	1.6
Purity Wholesale Grocers	ne	ne	ne	1.2	1.5	1.3	1.60	0.00	1.6
Grocers Supply Co., Inc.	1.5	1.25	1.2	1.4	1.4	1.4	1.40	0.00	1.4
Associated Food Stores	ne	0.14	ne	0.86	1.1	1.3	0.98	0.33	1.3
Associated Wholesalers, Inc.	1.2	1.15	1.1	1.09	1.2	1.1	0.94	0.06	1
Total	58.25	62.34	63.74	69.15	73.9	78.06	60.22	19.19	79.41

ne = New entrant. A consistent time series was not maintained for these companies in earlier years as they were new entrants into the top 15.
[1] Firms primarily serving supermarkets and retail foodstores.
[2] Companies are listed in order, according to sales rank.
[3] Sales reflect Richfood's acquisition of Super Rite Foods, and subsequent purchase of Richfood by Supervalu.
[4] C&S plans to operate corporate stores purchased from Grand Union.
[5] Wakefern is the merchandising and distribution arm of ShopRite supermarkets, the largest retailer-owned cooperative in the United States.
[6] Sales reflect Nash Finch's acquisition of Super Food Services.
[7] Unified Western Grocers is the company resulting from the merger between Certified Grocers of California and United Grocers.

Sources: *Supermarket News*, various issues; *Food Institute Report*, various issues; *Progressive Grocer Annual Report*, April 2001; *Wall Street Journal*, selected issues; American Institute of Food Distribution, Inc.; Company 10K's filed with the Security and Exchange Commission.

Recent Developments in Food Wholesaling

Supervalu and Fleming remain, by far, the largest broadline wholesalers of retail food (table 2.1). The companies plan to follow divergent strategies. Fleming announced plans to sell company-owned conventional supermarket chains to focus on food distribution facilities and its Food 4 Less warehouse stores, emphasizing value pricing. For the first time in Fleming's 86-year history, supermarkets account for less than half its sales to retailers, with the remainder going to alternative store formats. For example, by supplying Prima Marketing and Quarles Food Stores, which operate convenience stores, like the Pantry Store and Q-Stop, Fleming is building its presence there in response to changes in consumer purchasing patterns (see "Food Retailing"). Sales to online food retailers are also expected to be an important driver for future growth.

On the other hand, Supervalu, also the 10th largest supermarket retailer, announced that it would focus on building its retail business and continue its long-term strategy of retail acquisitions. In 2001, as part of its restructuring, the company announced plans to focus its retail operations and capital spending on retail markets with higher-return growth. The company is also accelerating the growth of its Save-A-Lot stores, which is a limited-assortment, "extreme value" chain of supermarkets that targets households with annual income of $35,000 or less. The goal in 2002 is to grow retail earnings to overcome the loss of its Kmart account in 2001. Thus far, Supervalu has chosen to focus on its supply chain logistics in the United States, rather than expanding internationally through export markets or investments in retail operations.

Consolidation Among General-Line Retail Food Wholesalers

The retail food wholesaling sector continues to experience consolidation through acquisitions. Mergers by leading wholesalers, both horizontal and vertical, are reshuffling the ranks of the top companies (app. table 35). Acquisitions can lead to efficiency gains that reduce costs and enable wholesalers to offer more variety to customers throughout a market region. With rapid consolidation by supermarket chains, many grocery wholesalers continue to acquire retail operations to maintain their customer base. Such vertical expansion enables companies to create synergies, cut operating costs, and cater to the geographic idiosyncrasies of consumers and retailer customers. Leading wholesalers Supervalu, Fleming, and Giant Eagle (along with BJ's Wholesale Club) are now among the top U.S. food retailers, with a combined market share of 5 percent.

Richfood Holdings has been especially active in merger activity, acquiring other grocery wholesalers to become more cost-effective while servicing a smaller number of small chains. The addition of Super Rite's distribution facilities significantly increased Richfood's warehouse space. And by acquiring the supermarket chain Farm Fresh in 1997, Richfood multiplied its supermarket establishments six-fold. In 1999, Supervalu purchased Richfood, at that time the sixth leading food wholesaler.

Nash Finch, Spartan Stores, and Roundy's are also pursuing a strategy of supermarket acquisitions. In 2002, Nash Finch had 111 supermarkets, warehouse stores, and mass merchandise stores to better compete with large self-distributing supermarket chains. In 2001, C&S Wholesale Grocers made its first significant entry into retailing by purchasing Grand Union, a retailer that it formerly supplied.

In an industry in which wholesalers' main customers are independent retailers and small chains, some wholesalers are courting large and medium-sized chains. For example, C&S Wholesale Grocers is a supplier to Giant Food Stores, whose parent company, Ahold, is the Nation's fifth largest grocery retailer. These wholesalers provide service to chains that, by virtue of their size, are capable of self-supplying but do not.

Top Food Service Distributors Continue Rapid Consolidation

In 2001, the ten largest broadline distributors to food service establishments accounted for nearly 31 percent of total food service distributor sales ($170 billion) (table 2-2). Sysco Corporation is the Nation's largest broadline food service distributor, outpacing its nearest competitor by $4.9 billion in sales, or 28 percent. The company accounted for 13 percent of total food service distribution sales. Sysco also ranked 80th in the S&P 500 (based on growth in sales, profits, return to shareholders, etc.); the nearest food industry company, Kroger, ranked 120th. Through a series of vertical acquisitions, Sysco has also entered specialty meat processing (app. table 35).

In recent years, food service distributors have been especially active in acquiring other food service dis-

Table 2.2—Sales of the top 10 broadline food service distributors

Firms	1995	1996	1997	1998	1999	2000	2001
				$ billion			
Sysco Corporation	12.7	14.1	14.8	16.1	18.3	20.6	22.6
U.S. Food Service (JP Foodservice, Inc.)[1]	11.1	8.3	13	14.6	15.6	18.6	17.7
Performance Food Group	0.7	0.7	1.2	1.6	2.1	2.6	3.2
Gordon Food Service, Inc.	1.3	1.5	1.7	1.8	2	2.3	2.8
Food Services of America	0.9	1	1	1.1	1.2	1.3	1.3
Reinhart Food Service	0.4	0.5	0.6	0.6	0.7	1.1	1.3
Shamrock Foods Co.	0.6	0.7	0.8	0.8	0.9	1	1
Maines Paper & Foodservice	0.4	0.4	0.4	0.4	0.5	0.8	1
Ben E. Keith Foods	0.3	0.3	0.4	0.4	0.5	0.6	0.7
The IJ Co.	ne	ne	ne	ne	ne	ne	0.6
Total	28.4	27.5	33.9	37.4	41.8	48.9	52.2

ne = New entrant. A consistent time series was not maintained for this company in earlier years as it was a new entrant into the top 10 in 2001.
[1] Includes JP Foodservice's acquisition of U.S. Foodservice, Inc. and U.S. Food Service's (a subsidiary of Ahold) acquisitions of PYA/Monarch, Inc., and Alliant Foodservice, Inc. (formerly Kraft Foodservice).

Sources: *Institutional Distribution*, various issues; *Food Institute Report*, various issues; just-food.com.

tributors (table 2-3, app. table 35). The pace and complexity of consolidation among food service distributors is demonstrated by acquisitions involving U.S. Foodservice. The company initially was purchased by JP Foodservice, which was extremely active in mergers and acquisitions, and operated under the "U.S. Foodservice" name. As a result, U.S. Foodservice moved ahead of Alliant Foodservice, Inc., to become the second largest food service distributor. Reasons given for the merger included efficiency gains from greater purchasing power, lower transportation costs by rescheduling of customer drops for greater route density, and elimination of administrative cost redundancies. The merger extended JP's presence to 85 percent of the Nation, with customers such as Subway and Pizzeria Uno. Subsequently, in April 2000, Royal Ahold, the fourth largest grocery retailer in the world, moved into the food service business by purchasing U.S. Foodservice. The acquisition gave Ahold a reliable supply of food service products for its instore cafe and deli. U.S. Foodservice subsequently purchased Alliant Foodservice and GFG Foodservice, moving it ever closer to Sysco's sales.

Performance Food Group's (PFG) recent acquisitions extended the company geographically and diversified its customer mix. While these acquisitions increase the number of large, higher volume chain accounts serviced (which are generally lower gross-margin accounts), they allow for more efficient operations and lower operating costs. In 2001, PFG vertically integrated into fresh-cut produce by purchasing the largest independent processing company, Fresh Express, a pioneer in retail packaged salads.

In a major development, Ameriserve Food Distribution, Inc., one of the largest quick-service food service distributors to restaurants in North America, declared bankruptcy in 2000. After acquiring PepsiCo Food Systems and ProSource in 1997 and 1998, the company accumulated $2 billion in debt, stretching its leverage and management. The combined operation served restaurants such as Arby's, Burger King, Pizza Hut, Long John Silver, KFC, and Taco Bell. Ameriserve recently lost one of its biggest accounts, Burger King, due to service complaints. These financial problems constrained earnings at quick-service restaurants and their suppliers, especially the poultry sector.

The consolidation trend among food service companies in the United States is expected to continue. In 2001, the top four distributors accounted for 27 percent of sales, compared with 15 percent in 1994. According to infor-

Table 2.3—Grocery and foodservice wholesaler acquisitions by type of firm acquired

Acquisitions	1998	1999	2000
		Number	
Food processors	10	7	5
Foodservice distributors	28	26	24
Retailers	6	13	4
Grocery wholesalers	21	13	9
Equipment suppliers	4	0	1
Raw product suppliers	0	1	0
Soft drink & water bottler	0	0	1
Restaurant	0	0	1
Unclassified	2	3	1
Total acquisitions by wholesalers	71	63	46

Source: Compiled by USDA/ERS from The Food Institute. "Food Business Mergers and Acquisitions," 1998, 1999, and 2000.

mation documented by the Food Institute, food service distributors accounted for over half of all acquisitions by food wholesalers in 2000 (table 2-3).

Warehouse Clubs

Rapid inventory turnover, high sales volume, and reduced operating costs enable warehouse clubs to operate at lower gross margins (8-12 percent) than discount chains and supermarkets, which operate on gross margins of 20 to 30 percent (Warehouse Club Focus). Warehouse clubs have become a powerful retailing force over the past decade, and their sales continue to increase both domestically and abroad (table 2-4). Costco and Sam's (a subsidiary of Wal-Mart) account for 93 percent of the club store market. BJ's is a distant third.

Grocery sales typically account for 30 to 40 percent of total wholesale club sales (*The Food Institute Report*). In 2000, club stores accounted for $23.7 billion in sales of grocery items (*Progressive Grocer Annual Report*).

Despite predictions that rapid growth in the late 1980s would limit future growth, sales have continued to increase each year. Operators have focused on renovating or relocating existing units, and maintaining and attracting new members. Sam's Clubs and Costco intensified their emphasis on business customers and launched marketing efforts, such as coupons and gift catalogs. Leading clubs are adding fresh departments and convenience products, such as rotisserie chicken, microwaveable entrees, and home meal replacement lines.

Most of the expected growth in warehouse clubs will be from international markets where industry leaders Sam's and Costco are focusing. In May 1995, Wal-Mart Stores opened its first Sam's Club outlet in South America in Sao Paulo, Brazil. The store serves mainly small dues-paying retail members such as restaurants, bars, and other businesses. The first Sam's Club in Argentina opened in August 1995. Sam's also operates 50 stores in Brazil, China, Mexico, and Puerto Rico. Costco operates 60 warehouses in Canada, 11 in the United Kingdom, 5 in Korea, 3 in Taiwan, 2 in Japan, and 20 in Mexico through a joint venture. The company recently opened its first Japanese units, both near Tokyo. On the other hand, BJs has chosen to grow domestically, not internationally.

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Table 2.4—Total sales by warehouse clubs, 1995 to 2000

Firms	1995	1996	1997	1998	1999	2000
			$ billion			
Costco Cos.	17.87	19.85	21.5	26	29.926	31.9
Sam's Wholesale Club	19.28	19.8	20.7	24.4	26.669	26.4
BJ's Wholesale Club	2.46	2.85	3.2	3.4	4.026	4.7
Warehouse Club[1]	0.09	NA	NA	NA	NA	NA
Others[2]	0.21	2.4	3.3	0.1	0.0792	0.186
Total	39.91	44.9	48.7	53.9	60.7	63.186

NA = Not applicable.
[1] Closed remaining units in August 1995.
[2] In 2000, based on sales of Cost-U-Less. In previous years, calculated as a residual using total segment sales.

Source: *Food Institute Report*, Various issues; and *www.warehouseclubfocus.com*.

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